

**REPORT OF THE AUDIT OF THE  
GALLATIN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable George W. Zubaty, Gallatin County Judge/Executive  
Members of the Gallatin County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Tichenor & Associates, LLP to perform the audit of these financial statements. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Gallatin County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**GALLATIN COUNTY FISCAL COURT**

**June 30, 2005**

Tichenor & Associates, LLP has completed the audit of the Gallatin County Fiscal Court for fiscal year ended June 30, 2005.

We have issued an unqualified opinion on the governmental activities, each major fund and the aggregate remaining fund information financial statements of Gallatin County, Kentucky.

**Financial Condition:**

The fiscal court had net assets of \$3,717,040 as of June 30, 2005. The fiscal court had unrestricted net assets of \$2,319,844 in its governmental activities as of June 30, 2005, with total net assets of \$3,717,040. The fiscal court had total debt principal as of June 30, 2005 of \$584,272 with \$35,789 due within the next year.

**Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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**TICHENOR & ASSOCIATES, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

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To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable George W. Zubaty, Gallatin County Judge/Executive  
Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Gallatin County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Gallatin County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

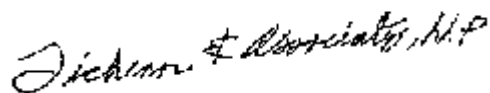
The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable George W. Zubaty, Gallatin County Judge/Executive  
Members of the Gallatin County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gallatin County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2005 on our consideration of Gallatin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -  
December 28, 2005

## GALLATIN COUNTY OFFICIALS

For The Year Ended June 30, 2005

### **Fiscal Court Members:**

George W. Zubaty	County Judge/Executive
James Campbell	Magistrate
Kenny McFarland	Magistrate
Tom Ellis	Magistrate
Eric Moore	Magistrate

### **Other Elected Officials:**

John G. Wright	County Attorney
Jerry Webb	Jailer
Tracy Miles	County Clerk
Nelson Brown	Sheriff
Vesta Moore	Property Valuation Administrator
Brian Lowder	Coroner

### **Appointed Personnel:**

Lesa Bullard	County Treasurer
Lesa Bullard	Occupational Tax Administrator
Elaine Gayer	Finance Officer
Elaine Gayer	Personnel/Payroll Officer
Mike Satchwell	Road Supervisor

# Gallatin County Fiscal Court

*Magistrates*  
Eric Moore  
Tom Ellis  
James Campbell  
Kenny McFarland

P.O. Box 144  
Warsaw, Kentucky 41095  
859-567-5691

George Zubaty  
*Judge/Executive*  
John G. Wright  
*County Attorney*

## **Gallatin County Management's Discussion and Analysis June 30, 2005**

The financial management of Gallatin County, Kentucky offers readers of Gallatin County's financial statements this narrative overview and analysis of the financial activities of Gallatin County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

### **Financial Highlights**

- Gallatin County had total net assets of \$3,717,040 as of June 30, 2005. The fiscal court had unrestricted net assets of \$2,319,844 in its governmental activities as of June 30, 2005. Total debt principal as of June 30, 2005 was \$584,272 with \$35,789 due within one year.
- The government's total net assets increased by \$199,495 from the prior year. This increase is primarily due to Occupational Tax and Business License Fees.
- At the close of the current fiscal year, Gallatin County balance sheet reported a fund balance of \$2,319,844. Of this amount, \$2,272,846 is available for spending at the government's discretion (unreserved fund balance).
- Gallatin County's total indebtedness at the close of fiscal year June 30, 2005 was \$584,272, of which \$548,483 is long-term debt (due after 1 year) and \$35,789 is short-term debt (to be paid within 1 year). Debt additions were \$39,968 and debt reductions were \$67,523 for a net decrease of \$27,555 during the year.
- In addition, Gallatin County purchased two new Crown Victoria's for the Sheriff's Dept. at the cost of \$39,968. Gallatin County also purchased a 2005 Backhoe for the Road Dept. at the cost of \$48,450. Gallatin County also resurfaced various roads without incurring additional debt for these items at the cost of \$195,858. Gallatin County paid off the 911 Equipment Debt obligation two-years early and a Ford Motor lease for one Sheriff vehicle.
- Gallatin County received an animal shelter grant in the amount of \$15,978 to add a puppy room to the existing shelter and additional improvements to the existing kennels and shelter.

## Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Gallatin County's basic financial statements. Gallatin County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Gallatin County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on Gallatin County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Gallatin County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

The government-wide financial statements include only Gallatin County. (known as the primary government).

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Gallatin County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Gallatin County are *governmental funds*.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Gallatin County maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road and Bridge Fund, Local Government Economic Assistance Fund, and Ambulance Fund, all of which are considered major funds by the County. The Jail Fund, 911 Fund, 911 Wireless Fund, and Tourism Fund are considered non-major funds and are represented in a combined form.

Gallatin County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-wide Financial Analysis**

**Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of government's financial position.

**Table 1**  
**County's Net Assets**

	<b>Governmental Activities</b>		<b>Total</b>	
	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>
<b>Assets</b>				
Current and other assets	\$ 2,282,896	\$ 2,319,844	\$ 2,282,896	\$ 2,319,844
Capital Assets	1,786,051	1,981,468	1,786,051	1,981,468
Total Assets	4,068,947	4,301,312	4,068,947	4,301,312
<b>Liabilities</b>				
Current liabilities	57,523	35,789	57,523	35,789
Long-term liabilities	554,304	548,483	554,304	548,483
Total Liabilities	611,827	584,272	611,827	584,272
<b>Net Assets</b>				
Invested in capital assets, net of related debt	1,174,224	1,397,196	1,174,224	1,397,196
Unrestricted	2,282,896	2,319,844	2,282,896	2,319,844
Restatement	60,425		60,425	
Total Net Assets	\$ 3,517,545	\$ 3,717,040	\$ 3,517,545	\$ 3,717,040

Government-wide Financial Analysis (Continued)

**Table 2**  
**Gallatin County's Comparison of General Revenue,**  
**Program Revenue and Functional Expenses**

	<b>Governmental Activities</b>		<b>Total</b>	
	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>
<b>Revenues</b>				
General Revenues	\$ 831,365	\$ 1,962,252	\$ 831,365	\$ 1,962,252
Charges for Services	325,679	374,270	325,679	374,270
Operating Grants and Contributions	865,911	602,905	865,911	602,905
<b>Total Revenues</b>	<u>\$ 2,022,955</u>	<u>\$ 2,939,427</u>	<u>\$ 2,022,955</u>	<u>\$ 2,939,427</u>
<b>Expenses</b>				
General Government	\$ 864,800	\$ 667,455	\$ 864,800	\$ 667,455
Protection to Persons and Property	809,162	1,017,858	809,162	1,017,858
General Health and Sanitation	29,703	61,449	29,703	61,449
Social Services	9,342	15,986	9,342	15,986
Recreation and Culture	39,323	43,010	39,323	43,010
Roads	362,591	392,916	362,591	392,916
Debt Service		58,648		58,648
Capital Projects		17,020		17,020
Administration		465,590		465,590
<b>Total Expenses</b>	<u>\$ 2,114,921</u>	<u>\$ 2,739,932</u>	<u>\$ 2,114,921</u>	<u>\$ 2,739,932</u>

**Changes in Net Assets.**

*Governmental Activities.* Gallatin County's net assets increased by \$199,495 in fiscal year 2005. Key elements of this are as follows:

- Current assets and cash increased \$36,948.
- Investment in capital assets, net of related debt increased \$222,972 primarily due to additions to infrastructure assets and other capital assets.
- Current and long-term liabilities decreased by \$27,555.
- Revenues were \$2,939,427 as reflected in the Statement of Activities.
- Expenditures totaled \$2,739,932 as reflected in the Statement of Activities.



### **Financial Analysis of the County's Funds**

As noted earlier, Gallatin County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental Funds Overview.* The focus of Gallatin County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2005 fiscal year, the combined ending fund balance of Gallatin County's governmental funds was \$2,319,844. Approximately 98% (\$2,272,846) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$46,998) is reserved to indicate that it is not available for new spending because it is committed.

The County has 4 major governmental funds. These are 1) General Fund; 2) Road and Bridge Fund; 3) Local Government Economic Assistance Fund; 4) Ambulance Fund. There are 4 non-major funds. They are the 911 Fund, 911 Wireless Fund, Jail Fund, and Tourism Fund.

1. The General Fund is the chief operating fund of Gallatin County. At the end of the June 30, 2005 fiscal year, unreserved fund balance of the General Fund was \$699,877, while total fund balance was \$700,490. The county received \$327,030 in Real Property tax revenues. This accounts for approximately 25% of the general fund revenue. \$655,242 was received from other taxes, which include motor vehicle tax, delinquent tax, deed transfer tax, payroll tax, franchise tax and in lieu of tax payments and accounts for approximately 50% of the county's general fund revenues.
2. The Road and Bridge Fund is the fund related to county road and bridge construction and maintenance. The Road and Bridge Fund had \$1,469,845 in fund balance at June 30, 2005. The fund balance at the end of the previous year was \$1,618,641. The fiscal year 2005 expenditures included major equipment purchase of a backhoe as well as various road paving.
3. The Jail Fund is primarily funded by transfers from the LGEA and General Fund. The Jail Fund had a fund balance at June 30, 2005 of \$24,249. That is an increase in fund balance of \$15,249 over the previous fiscal year end. All in all the Jail mainly transports prisoners and houses them at the Carroll County Detention Center at the cost of \$133,652. The General Fund and LGEA combined, contributed \$145,000 to the jail operations.
4. The Local Government Economic Assistance Fund had a fund balance of \$22,746, a decrease of \$49,854 over the previous fiscal year end. This is mainly due to a decrease in revenues from Mineral Severance Tax.
5. The Ambulance Fund is used to provide EMS services to the residents of Gallatin County. Gallatin County had a fund balance of \$26,589, as of June 30, 2005. Revenues proved to be an increase in the Ambulance Fund and expenditures were kept to a minimum.

**Financial Analysis of the County's Funds (Continued)**

6. The County Police Fund was not self-supporting and was combined into the General Fund. The County Police Fund was closed on July 2, 2004.
7. The 911 Fund had a fund balance of \$6,059 as of June 30, 2005, which is a decrease of \$16,290 from the prior year. Revenues were down by \$55,632 and expenditures were up by approximately \$5,700. The 911 Fund also paid in full the debt for the communications equipment two years early.
8. The 911 Wireless Fund had a fund balance of \$33,821 as of June 30, 2005 which is an increase of \$4,622 from the prior year. It is supported primarily from revenues from CMRS for wireless calls.
9. The Tourism Fund had a fund balance of \$36,045 as of June 30, 2005, which is an increase of \$20,041 from the prior year. This is partially a result of an increase in Transient Room Tax revenue totaling approximately \$9,462.

**General Fund Budgetary Highlights**

The County's original budget was amended during the fiscal year increasing the operating budget by \$263,611. Budget amendments were made to all areas due to excess revenue, and grants

Actual operating revenues were \$194,841 more than amount originally budgeted by Fiscal Court. This increase was primarily from excess revenue and grants and from the additional revenues with the newly adopted Occupational Tax and Business License Fee.

Actual operating expenditures were \$191,184 less than amount originally budgeted by Fiscal Court.

### Capital Assets and Debt Administration

*Capital Assets.* Gallatin County's investment in capital assets for its governmental type activities as of June 30, 2005, amounts to \$1,981,468 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings, machinery and equipment, vehicles and current year infrastructure additions.

Major capital asset events during the 2005 fiscal year include the purchase of a Backhoe and paving various roads within the county.

Additional information on the County's capital assets can be found in Note 3 of this report.

**Table 3**  
**County's Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Total	
	2004	2005	2004	2005
Infrastructure Assets	\$ 749,447	\$ 853,411	\$ 749,447	\$ 853,411
Land and Land Improvements	330,000	330,000	330,000	330,000
Buildings	279,146	271,342	279,146	271,342
Vehicles	263,751	262,025	263,751	262,025
Equipment	224,132	264,690	224,132	264,690
Total Net Capital Assets	<u>\$ 1,846,476</u>	<u>\$ 1,981,468</u>	<u>\$ 1,846,476</u>	<u>\$ 1,981,468</u>

*Long-Term Debt.* At the end of the 2005 fiscal year, Gallatin County had total long-term debt outstanding of \$584,272. The amount of this debt due within the next year is \$35,789 and \$548,483 is due in subsequent years. This debt is for the sheriff cruisers, and Mars and Sugar Bay road improvements.

Additional information on the County's long-term debt can be found in Note 5 of this report.

**Other Matters.** The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- The 2005 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects which have been completed or are nearing completion.
- Program cuts at the State level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for county programs. The Fiscal Court may decide to alter the operations or funding of County operations impacted by State revenue shortfalls.

### Requests For Information

This financial report is designed to provide a general overview of Gallatin County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Gallatin County Treasurer, PO Box 144 (200 Washington Street), Warsaw, KY 41095.

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**GALLATIN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**GALLATIN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

	<u>Primary Government</u>
	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 2,319,844
Total Current Assets	<u>2,319,844</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	330,000
Buildings	271,342
Equipment	264,690
Vehicles	262,025
Infrastructure Assets - Net of Depreciation	<u>853,411</u>
Total Noncurrent Assets	<u>1,981,468</u>
Total Assets	<u>4,301,312</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations	35,789
Noncurrent Liabilities:	
Financing Obligations	<u>548,483</u>
Total Liabilities	<u>584,272</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	<u>1,397,196</u>
Unrestricted	<u>2,319,844</u>
Total Net Assets	<u>\$ 3,717,040</u>

The accompanying notes are an integral part of the financial statements.

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**GALLATIN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**



**GALLATIN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

		Program Revenues Received		Net (Expenses) Revenues and Changes in Net Assets	
				Primary Government	
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Totals
Primary Government:					
Governmental Activities:					
General Government	\$ 667,455	\$ 355,466	\$ 274,774	\$ (37,215)	\$ (37,215)
Protection to Persons and Property	1,017,858	17,278		(1,000,580)	(1,000,580)
General Health and Sanitation	61,449			(61,449)	(61,449)
Social Services	15,986			(15,986)	(15,986)
Recreation and Culture	43,010			(43,010)	(43,010)
Roads	392,917	1,526	328,131	(63,260)	(63,260)
Debt Service	58,648			(58,648)	(58,648)
Capital Projects	17,020			(17,020)	(17,020)
Administration	465,590			(465,590)	(465,590)
Total Governmental Activities	2,739,932	374,270	602,905	(1,762,756)	(1,762,756)
Total Primary Government	\$ 2,739,932	\$ 374,270	\$ 602,905	\$ (1,762,756)	\$ (1,762,756)
General Revenues:					
Taxes:					
	Real Property Taxes			327,030	327,030
	Personal Property Taxes			40,516	40,516
	Motor Vehicle Taxes			80,521	80,521
	Occupational Taxes			332,912	332,912
	Other Taxes			686,674	686,674
	Surcharges			47,561	47,561
	Excess Fees			33,761	33,761
	Miscellaneous Revenues			373,144	373,144
	Interest			40,133	40,133
	Total General Revenues			1,962,252	1,962,252
	Change in Net Assets			199,495	199,495
	Net Assets - Beginning (Restated)			3,517,545	3,517,545
	Net Assets - Ending			\$ 3,717,040	\$ 3,717,040

The accompanying notes are an integral part of the financial statements.

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**GALLATIN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**



**GALLATIN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

	<u>General Fund</u>	<u>Road &amp; Bridge Fund</u>	<u>LGEA Fund</u>	<u>Ambulance Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 700,490	\$ 1,469,845	\$ 22,746	\$ 26,589	\$ 100,174	\$ 2,319,844
Total Assets	<u>\$ 700,490</u>	<u>\$ 1,469,845</u>	<u>\$ 22,746</u>	<u>\$ 26,589</u>	<u>\$ 100,174</u>	<u>\$ 2,319,844</u>
<b>FUND BALANCES</b>						
Reserved for:						
Encumbrances	\$ 613	\$ 44,569	\$ 699	\$ 722	\$ 395	\$ 46,998
Unreserved:						
General Fund	699,877					699,877
Special Revenue Funds		1,425,276	22,047	25,867	99,779	1,572,969
Total Fund Balances	<u>\$ 700,490</u>	<u>\$ 1,469,845</u>	<u>\$ 22,746</u>	<u>\$ 26,589</u>	<u>\$ 100,174</u>	<u>\$ 2,319,844</u>

**Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 2,319,844
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	2,774,763
Accumulated Depreciation	(793,295)
Long-term debt is not due and payable in the current period and, therefore,	
is not reported in the funds.	
Financing Obligations	<u>(584,272)</u>
Net Assets Of Governmental Activities	<u>\$ 3,717,040</u>

The accompanying notes are an integral part of the financial statements.

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**GALLATIN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**GALLATIN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>General Fund</b>	<b>Road &amp; Bridge Fund</b>	<b>LGEA Fund</b>	<b>Ambulance Fund</b>	<b>Non-Major Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>						
Taxes	\$ 863,520	\$	\$	\$	\$ 106,979	\$ 970,499
In Lieu Of Taxes	118,752					118,752
Excess Fees	33,761					33,761
Licenses And Permits	28,046					28,046
Intergovernmental	147,200	531,895	375,402		153,198	1,207,695
Charges For Services	12,396	1,526		343,070		356,992
Miscellaneous	110,427	64,569	4,044	615	3,894	183,549
Interest	7,452	31,926	194	117	444	40,133
Total Revenues	<u>1,321,554</u>	<u>629,916</u>	<u>379,640</u>	<u>343,802</u>	<u>264,515</u>	<u>2,939,427</u>
<b>EXPENDITURES</b>						
General Government	470,888		200,000			670,888
Protection to Persons and Property	226,445		76,336	390,262	355,676	1,048,719
General Health And Sanitation	60,449					60,449
Social Services	15,542					15,542
Recreation and Culture	800				9,705	10,505
Roads	386,271	562,960	32,127			981,358
Debt Service		58,648				58,648
Capital Projects		17,020				17,020
Administration		23,652	1,031	34,124	20,512	79,319
Total Expenditures	<u>1,160,395</u>	<u>662,280</u>	<u>309,494</u>	<u>424,386</u>	<u>385,893</u>	<u>2,942,448</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>161,159</u>	<u>(32,364)</u>	<u>70,146</u>	<u>(80,584)</u>	<u>(121,378)</u>	<u>(3,021)</u>
<b>Other Financing Sources (Uses)</b>						
Financing Obligation Proceeds	39,968					39,968
Transfers from Other Funds	118,504			50,000	170,000	338,504
Transfers to Other Funds	(75,000)	(116,432)	(120,000)		(27,072)	(338,504)
Total Other Financing Sources (Uses)	<u>83,472</u>	<u>(116,432)</u>	<u>(120,000)</u>	<u>50,000</u>	<u>142,928</u>	<u>39,968</u>
Net Change in Fund Balances	244,631	(148,796)	(49,854)	(30,584)	21,550	36,947
Fund Balances - Beginning	455,859	1,618,641	72,600	57,173	78,624	2,282,897
Fund Balances - Ending	<u>\$ 700,490</u>	<u>\$ 1,469,845</u>	<u>\$ 22,746</u>	<u>\$ 26,589</u>	<u>\$ 100,174</u>	<u>\$ 2,319,844</u>

The accompanying notes are an integral part of the financial statements.

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**GALLATIN COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**GALLATIN COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ 36,948
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	308,622
Depreciation Expense	(173,630)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. This transaction, however, has no effect on net assets.	
Financing Obligation	(39,968)
Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. This transaction, however, has no effect on net assets.	
Financing Obligations	<u>67,523</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 199,495</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**GALLATIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Gallatin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14 and GASB 39, there are no component units which merit consideration as part of the reporting entity.

**C. Gallatin County Elected Officials Not Part Of Gallatin County, Kentucky**

Kentucky law provides for election of the officials below from the geographic area constituting Gallatin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Gallatin County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**GALLATIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide and fund financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements. The County has no proprietary funds or fiduciary funds.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road and Bridge Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**LGEA Fund** - This fund is used mainly for park recreation and fire department support. The primary source of revenue for this fund is state payments for coal severance tax and economic development grants.

**GALLATIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Ambulance Fund - This fund accounts for ambulance services provided to the residents of Gallatin County. The primary source of revenue comes from ambulance services.

The primary government also has the following non-major funds: Jail Fund, 911 Fund, 911 Wireless Fund, and Tourism Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

The Road and Bridge Fund, Jail Fund, LGEA Fund, Ambulance Fund, 911 Fund, 911 Wireless Fund, and Tourism Fund are presented as special revenue funds.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land and land improvements, buildings, equipment, building improvements, vehicles, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

**GALLATIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

	Capitalization Threshold	Useful Life (Years)
Land	Capitalize Only	
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Construction In Progress	Capitalize Only	
Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5-15
Infrastructure	\$ 20,000	2-40

**G. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations is reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**GALLATIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Deposits**

The county maintained deposits of public funds with three depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2005, the County's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

**GALLATIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 330,000	\$	\$	\$ 330,000
Total Capital Assets Not Being Depreciated	330,000			330,000
Capital Assets, Being Depreciated:				
Buildings	397,000			397,000
Prior Year Omissions - Building	99,000			99,000
Vehicles	518,361	39,968		558,329
Equipment	311,777	72,796		384,573
Infrastructure	810,003	195,858		1,005,861
Total Capital Assets Being Depreciated	2,136,141	308,622		2,444,763
Less Accumulated Depreciation For:				
Buildings	(171,054)	(6,354)		(177,408)
Prior Year Omissions - Building	(45,800)	(1,450)		(47,250)
Vehicles	(254,610)	(41,694)		(296,304)
Equipment	(87,645)	(32,238)		(119,883)
Infrastructure	(60,556)	(91,894)		(152,450)
Total Accumulated Depreciation	(619,665)	(173,630)		(793,295)
Total Capital Assets, Being Depreciated, Net	1,516,476	134,992		1,651,468
Governmental Activities Capital Assets, Net	<u>\$ 1,846,476</u>	<u>\$ 134,992</u>	<u>\$ 0</u>	<u>\$ 1,981,468</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 21,317
Protection to Persons and Property	29,107
General Health and Sanitation	1,000
Recreation and Culture	378
Social Services	444
Roads, Including Depreciation of General Infrastructure Assets	<u>121,384</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 173,630</u>

**GALLATIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 4. Short-term Debt**

In July 2004, Gallatin County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$314,000, with principal being due in January 2005. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$900.

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental Activities:</u>				
Kentucky Advanced Revenue Program	\$ 0	\$ 314,000	\$ 314,000	\$ 0
Governmental Activities				
Short-term Liabilities	<u>\$ 0</u>	<u>\$ 314,000</u>	<u>\$ 314,000</u>	<u>\$ 0</u>

**Note 5. Financing Obligations**

The county has entered into the following capital lease-purchase agreements:

**A. 911 Equipment Lease-Purchase Agreement**

On July 29, 2002, Gallatin County entered into a five-year lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) program for \$92,078. The purpose of the financing was for the purchase of 911 dispatch equipment. Interest and fees are paid on a monthly basis and a principal payment is made annually. The outstanding principal balance as of June 30, 2005 was \$57,077. Although this balance was not current at June 30, 2005, the entire loan was paid in full in August 2005 subsequent to our audit period.

Fiscal Year Ended June 30	Scheduled Interest & Fees	Scheduled Principal
2006	\$ 704	\$ 19,802
2007	1,039	18,379
2008	<u>81</u>	<u>18,896</u>
Totals	<u>\$ 1,824</u>	<u>\$ 57,077</u>

**GALLATIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5.     Financing Obligations (Continued)**

**B.   Mars Road Capital Lease-Purchase Agreement**

On May 27, 2004, Gallatin County entered into a twenty-five year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in order to finance the improvements of Mars Road so that it may be part of the county road system. Payments of this debt are to be made by the property owners located on Mars Road. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Interest and fees are paid on a monthly basis and a principal payment is made annually until termination of the lease in fiscal year ending June 30, 2030, as shown in the following table.

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest &amp; Fees</u>	<u>Scheduled Principal</u>
2006	\$ 18,173	\$ 10,000
2007	17,661	10,000
2008	17,182	10,000
2009	16,671	10,000
2010	16,171	10,000
2011-2015	69,688	75,000
2016-2020	50,930	75,000
2021-2025	32,151	75,000
2026-2030	<u>10,860</u>	<u>95,000</u>
Totals	\$ 249,487	\$ 370,000
Less: Payments Due July 2005		
Paid June 2005	<u>5,392</u>	<u>10,000</u>
Total Outstanding June 30, 2005	<u>\$ 244,095</u>	<u>\$ 360,000</u>



**GALLATIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Financing Obligations (Continued)**

**C. Sugar Bay Road Capital Lease-Purchase Agreement**

On May 27, 2004, Gallatin County entered into a twenty-five year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in order to finance the improvements of Sugar Bay Road so that it may be part of the county road system. Payments of this debt are to be made by the property owners located on Sugar Bay Road. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Interest and fees are paid on a monthly basis and a principal payment is made annually until termination of the lease in fiscal year ending June 30, 2029, as shown in the following table.

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest &amp; Fees</u>	<u>Scheduled</u> <u>Principal</u>
2006	\$ 6,416	\$
2007	6,183	5,000
2008	5,940	5,000
2009	5,686	5,000
2010	5,436	5,000
2011-2015	23,423	25,000
2016-2020	17,171	25,000
2021-2025	10,911	25,000
2026-2029	<u>2,118</u>	<u>32,227</u>
Totals	<u>\$ 83,284</u>	<u>\$ 127,227</u>

**D. Sheriff's Vehicles Lease-Purchase Agreement**

On March 8, 2005, Gallatin County entered into a three-year lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) program for \$39,968. The purpose of the financing was for the purchase of two new Crown Victoria's for the Sheriff's Department. Interest, fees and principal payments are due on a monthly basis. The outstanding principal balance as of June 30, 2005 was \$39,968. Although this balance was not current at June 30, 2005, the entire loan was paid in full subsequent to this in August 2005.

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest &amp; Fees</u>	<u>Scheduled</u> <u>Principal</u>
2006	\$ 996	\$ 15,987
2007	909	14,597
2008	<u>232</u>	<u>9,384</u>
Totals	<u>\$ 2,137</u>	<u>\$ 39,968</u>

**GALLATIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Financing Obligations (Continued)**

**E. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	\$ 611,827	\$ 39,968	\$ 67,523	\$ 584,272	\$ 35,789
Governmental Activities Long-term Liabilities	<u>\$ 611,827</u>	<u>\$ 39,968</u>	<u>\$ 67,523</u>	<u>\$ 584,272</u>	<u>\$ 35,789</u>

**Note 6. Employee Retirement System**

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Insurance**

For the fiscal year ended June 30, 2005, Gallatin County was a member of the Kentucky Association of Counties' All Line Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 8. Prior Period Adjustments**

The beginning net asset balance for governmental activities has been restated by \$60,425 due to capital assets previously omitted and also due to a previous overstatement of depreciation expense.

**GALLATIN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 9. Subsequent Events**

On September 15, 2005, Gallatin County entered into a twenty-year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) for \$820,000. The purpose of the financing was for the purchase of land for a park and fairgrounds for the county. Interest is to be paid on a monthly basis and a principal payment is to be made on an annual basis until termination of the lease in January 2026.

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**GALLATIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**



**GALLATIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 603,500	\$ 638,500	\$ 863,520	\$ 225,020
In Lieu Tax Payments	109,000	109,000	118,752	9,752
Excess Fees	6,502	38,502	33,761	(4,741)
Licenses and Permits	18,000	18,000	28,046	10,046
Intergovernmental Revenue	99,100	186,711	147,200	(39,511)
Charges for Services	4,400	4,400	12,396	7,996
Miscellaneous	14,000	123,000	110,427	(12,573)
Interest	8,600	8,600	7,452	(1,148)
Total Revenues	863,102	1,126,713	1,321,554	194,841
<b>EXPENDITURES</b>				
General Government	483,921	531,256	470,888	60,368
Protection to Persons and Property	111,786	192,076	186,477	5,599
General Health and Sanitation	33,679	64,350	60,449	3,901
Social Services	14,000	18,340	15,542	2,798
Recreation and Culture	44,750	44,750	800	43,950
Administration	450,300	460,839	386,271	74,568
Total Expenditures	1,138,436	1,311,611	1,120,427	191,184
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(275,334)	(184,898)	201,127	386,025
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	116,432	116,432	118,504	2,072
Transfers To Other Funds	(168,850)	(168,850)	(75,000)	93,850
Total Other Financing Sources (Uses)	(52,418)	(52,418)	43,504	95,922
Net Changes in Fund Balance	(327,752)	(237,316)	244,631	481,947
Fund Balance - Beginning	335,752	335,752	455,859	120,107
Fund Balance - Ending	\$ 8,000	\$ 98,436	\$ 700,490	\$ 602,054

**GALLATIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts,</b>	<b>Final Budget</b>
			<b>(Budgetary</b>	<b>Positive</b>
			<b>Basis)</b>	<b>(Negative)</b>
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 519,500	\$ 519,500	\$ 531,895	\$ 12,395
Charges for Services	500	500	1,526	1,026
Miscellaneous	1,000	62,700	64,569	1,869
Interest	50,500	50,500	31,926	(18,574)
Total Revenues	571,500	633,200	629,916	(3,284)
<b>EXPENDITURES</b>				
Roads	914,000	929,200	562,960	366,240
Debt Service		61,700	58,648	3,052
Capital Projects	500,000	500,000	17,020	482,980
Administration	54,780	39,580	23,652	15,928
Total Expenditures	1,468,780	1,530,480	662,280	868,200
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(897,280)	(897,280)	(32,364)	864,916
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(116,432)	(116,432)	(116,432)	
Total Other Financing Sources (Uses)	(116,432)	(116,432)	(116,432)	
Net Changes in Fund Balance	(1,013,712)	(1,013,712)	(148,796)	864,916
Fund Balance - Beginning	1,013,712	1,013,712	1,618,641	604,929
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,469,845	\$ 1,469,845



**GALLATIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
In Lieu Tax Payments	\$ 73,417	\$ 73,417	\$	\$ (73,417)
Intergovernmental Revenue	163,000	363,000	375,402	12,402
Miscellaneous		2,060	4,044	1,984
Interest	200	200	194	(6)
Total Revenues	236,617	438,677	379,640	(59,037)
<b>EXPENDITURES</b>				
General Government		200,000	200,000	
Protection to Persons and Property	40,000	76,336	76,336	
Recreation and Culture	25,200	33,647	32,127	1,520
Administration	194,917	192,530	1,031	191,499
Total Expenditures	260,117	502,513	309,494	193,019
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(23,500)	(63,836)	70,146	133,982
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(154,150)	(154,150)	(120,000)	34,150
Total Other Financing Sources (Uses)	(154,150)	(154,150)	(120,000)	34,150
Net Changes in Fund Balances	(177,650)	(217,986)	(49,854)	168,132
Fund Balances - Beginning	59,650	59,650	72,600	12,950
Fund Balances - Ending	\$ (118,000)	\$ (158,336)	\$ 22,746	\$ 181,082

**GALLATIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>AMBULANCE FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Intergovernmental Revenues	\$ 22,000	\$ 22,000	\$	\$ (22,000)
Charges for Services	250,000	250,000	343,070	93,070
Miscellaneous	200	200	615	415
Interest	100	100	117	17
Total Revenues	272,300	272,300	343,802	71,502
<b>EXPENDITURES</b>				
Protection to Persons and Property	363,650	413,110	390,262	22,848
Administration	57,500	44,040	34,124	9,916
Total Expenditures	421,150	457,150	424,386	32,764
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(148,850)	(184,850)	(80,584)	104,266
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	143,850	143,850	50,000	(93,850)
Total Other Financing Sources (Uses)	143,850	143,850	50,000	(93,850)
Net Changes in Fund Balances	(5,000)	(41,000)	(30,584)	10,416
Fund Balances - Beginning	5,000	5,000	57,173	52,173
Fund Balances - Ending	\$ 0	\$ (36,000)	\$ 26,589	\$ 62,589

**GALLATIN COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2005**

**1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**2. General Fund Reconciliation**

Expenditures

Protection to Persons and Property -	
Budgetary Basis	\$ 186,477
Capital Outlay - Sheriff's Vehicles	<u>39,968</u>
Protection to Persons and Property -	
Modified Cash Basis	<u><u>\$ 226,445</u></u>

Other Financing Sources (Uses)

Total - Budgetary Basis	\$ 43,504
Debt Proceeds - Sheriff's Vehicles	<u>39,968</u>
Total - Modified Cash Basis	<u><u>\$ 83,472</u></u>

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**GALLATIN COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2005**



**GALLATIN COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2005**

	<b>Jail Fund</b>	<b>911 Fund</b>	<b>911 Wireless Fund</b>	<b>Tourism Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 24,249	\$ 6,059	\$ 33,821	\$ 36,045	\$ 100,174
Total Assets	<u>24,249</u>	<u>6,059</u>	<u>33,821</u>	<u>36,045</u>	<u>100,174</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	120	275			395
Unreserved:					
Special Revenue Funds	<u>24,129</u>	<u>5,784</u>	<u>33,821</u>	<u>36,045</u>	<u>99,779</u>
Total Fund Balances	<u>\$ 24,249</u>	<u>\$ 6,059</u>	<u>\$ 33,821</u>	<u>\$ 36,045</u>	<u>\$ 100,174</u>

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**GALLATIN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**

**GALLATIN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2005**

	<b>Jail Fund</b>	<b>911 Fund</b>	<b>911 Wireless Fund</b>	<b>Tourism Fund</b>
<b>REVENUES</b>				
Taxes	\$	\$ 80,496	\$	\$ 26,483
Intergovernmental	60,637	45,000	47,561	
Miscellaneous	735	28		3,131
Interest	142	91	79	132
Total Revenues	<u>61,514</u>	<u>125,615</u>	<u>47,640</u>	<u>29,746</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	186,631	151,027	18,018	
Recreation and Culture				9,705
Administration	4,634	15,878		
Total Expenditures	<u>191,265</u>	<u>166,905</u>	<u>18,018</u>	<u>9,705</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(129,751)</u>	<u>(41,290)</u>	<u>29,622</u>	<u>20,041</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Funds	145,000	25,000		
Transfers to Other Funds			(25,000)	
Total Other Financing Sources (Uses)	<u>145,000</u>	<u>25,000</u>	<u>(25,000)</u>	
Net Change in Fund Balances	15,249	(16,290)	4,622	20,041
Fund Balances - Beginning	9,000	22,349	29,199	16,004
Fund Balances - Ending	<u>\$ 24,249</u>	<u>\$ 6,059</u>	<u>\$ 33,821</u>	<u>\$ 36,045</u>

**GALLATIN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>County Police Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$ 106,979
	153,198
	3,894
	444
	<u>264,515</u>
	355,676
	9,705
	<u>20,512</u>
	<u>385,893</u>
	<u>(121,378)</u>
	170,000
<u>(2,072)</u>	<u>(27,072)</u>
<u>(2,072)</u>	<u>142,928</u>
<u>(2,072)</u>	<u>21,550</u>
<u>2,072</u>	<u>78,624</u>
<u>\$ 0</u>	<u>\$ 100,174</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



**TICHENOR & ASSOCIATES, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

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BUSINESS: (502) 245-0775  
FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

The Honorable George W. Zubaty, Gallatin County Judge/Executive  
Members of the Gallatin County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 28, 2005. Gallatin County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gallatin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

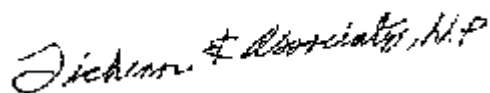
Compliance And Other Matters

As part of obtaining reasonable assurance about whether Gallatin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -  
December 28, 2005



**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**GALLATIN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



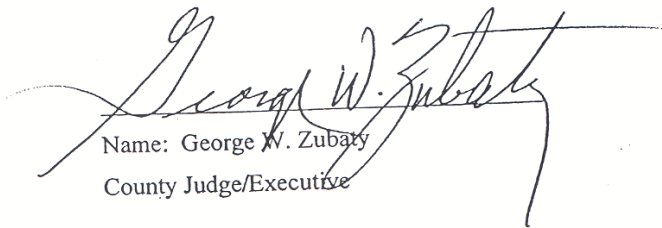
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

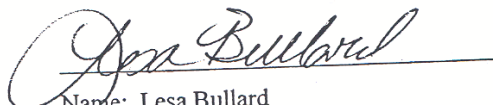
GALLATIN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2005

The Gallatin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.



Name: George W. Zubaty  
County Judge/Executive



Name: Lesa Bullard  
County Treasurer